DG 99-132

ENERGYNORTH NATURAL GAS, INC.

1999/2000 Winter Cost of Gas

Order Approving the Cost of Gas and Environmental Remediation and Conservation Surcharges

O R D E R N O. 23,331

October 29, 1999

APPEARANCES: McLane, Graf, Raulerson, and Middleton by Steven V. Camerino, Esq., on behalf of EnergyNorth Natural Gas, Inc. and Larry S. Eckhaus, Esq. for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On September 15, 1999, EnergyNorth Natural Gas, Inc. (ENGI) filed with the New Hampshire Public Utilities Commission (Commission) its Cost of Gas (COG) for the 1999/2000 winter period. Accompanying its COG filing was a Motion for Protective Order and Confidential Treatment, which was granted October 11, 1999 (Order No. 23,316). ENGI's filing included the direct testimony and supporting attachments of Mark G. Savoie, Manager of Regulatory Affairs, and Donald E. Carroll, Vice President of Gas Supply. On September 21, 1999, ENGI filed a letter informing the Commission of the rate ENGI intended to offer through its winter period Guaranteed Price Protection Program (GPPP). An Order of Notice was issued on September 17, 1999 setting the date of the hearing for October 12, 1999.

ENGI proposed a Firm Sales COG rate of $0.4756 per therm (allowing for monthly, cumulative adjustments not to exceed a maximum rate of $0.5232 per therm and a minimum rate of $0.4280 per therm) and a Firm Transportation Cost of Gas (FTCOG) rate of $0.0013 per therm. ENGI’s filing proposed updating the projected therm sales used in calculating the winter surcharge to recover the 280 Day Sales margin, resulting in a surcharge identical to last winter’s, of $0.0012 per therm. The filing also proposed two surcharges, totaling $0.0123 per therm, to recover environmental remediation costs related to its former manufactured gas plant (MGP) sites operated in New Hampshire.

On October 1, 1999, ENGI filed the Pre-Filed Direct Testimony of Kenneth M. Margossian, Executive Vice President of ENGI, in order to provide a history of cost allocation discussions between ENGI and Public Service Company of New Hampshire (PSNH) related to the environmental investigation and remediation of the former MGP site in Laconia, New Hampshire, and the settlement agreement ultimately reached by ENGI and PSNH regarding those costs.

On October 11, 1999, the Commission issued Order No. 23,316 which granted ENGI's Motion for Protective Order and Confidential Treatment as it relates to certain gas supply information and the terms of the settlement agreement between ENGI and PSNH.

Apart from the Office of Consumer Advocate (OCA) which is a statutorily recognized intervenor, there were no intervenors in this docket. A duly noticed hearing on the merits was held at the Commission on October 12, 1999.

II. POSITIONS OF THE PARTIES AND STAFF

A. EnergyNorth

EnergyNorth's witnesses Mark G. Savoie, Manager of Regulatory Affairs, and Donald E. Carroll, Vice President of Gas Supply, addressed the following issues: 1) calculation of the Firm Sales COG and the impact on customer bills; 2) factors contributing to the increased rate; 3) hedging costs and the fixed price plan; 4) calculation of the FTCOG; 5) environmental remediation surcharges; and 6) conservation charges.

1. Calculation and Impact of the Firm Sales COG

The proposed 1999/2000 Winter COG rate of $0.4756 per therm was calculated by increasing the anticipated cost of gas of $35,484,212 for net adjustments of $234,179 and dividing the resulting anticipated costs of $35,718,391 by projected therm sales of 75,097,825. Projected therm sales are weather normalized sales using a 20-year degree day mean rather than the 30-year degree day mean normally used and relied upon in determining base rates. ENGI felt the change would provide a more accurate sales forecast.

ENGI’s proposed 1999/2000 Winter COG rate is $0.4756 per therm for Firm Sales, representing an increase of $0.1044 per therm from the 1998/1999 weighted Firm Sales COG rate of $0.3712 per therm.

The proposed firm sales COG rate of $0.4756 per therm will increase an average residential heating customer’s monthly bill by $14, or thirteen and a half percent (13.5%), as compared to last winter’s COG rate.

2. Factors Contributing to the Increased COG

Two factors are primarily responsible for the increase in the proposed COG rate: an increase in projected gas costs and a lower prior period over-collection.

Mr. Carroll explained that last winter’s warmer than normal weather resulted in decreased demand, causing natural gas prices to fall. In addition to lower gas costs, the 1998/1999 Winter COG rate included an over-collection credit of over $2 million dollars from the prior winter. The combination of lower than normal gas costs and the refunding of a large over-collection resulted in a lower than normal COG rate for last winter.

The 1999/2000 Winter COG rate calculation includes higher actual and projected costs for this winter’s gas supplies. Mr. Carroll pointed out that the cost of a barrel of oil is $25 as compared to $12 a barrel last year and that the increase in oil prices has influenced the price of gas, resulting in substantially higher prices. The increase in gas costs accounts for approximately two-thirds of the increase in the COG rate.

The remainder of the increase is attributable to the lack of a large over-collection credit in the calculation of this winter’s COG rate. Through the use of monthly adjustments, ENGI was able to reduce the COG rate last winter to reflect market conditions and limit the variance between actual gas costs and revenues. The 1998/1999 Winter COG rate was artificially low due to a $2 million credit for a prior period over-collection. By comparison, the elimination of that over-collection in this year’s COG calculation results in an increased COG rate.

3. Hedging Costs and the Fixed Price Plan

In Order No. 22,699, Re EnergyNorth Natural Gas, Inc. 82 NHPUC 635 (1997), the Commission approved ENGI’s Natural Gas Price Risk Management Policy (hedging policy) which was designed to mitigate natural gas price volatility that had substantially increased gas costs in the past. In Order No. 22,915 (April 30, 1998), the Commission approved modifications to ENGI’s hedging policy to allow for the use of “collars” which essentially establishes the maximum and minimum price at which ENGI will buy gas contracts on the commodities market.

Due to higher than average futures prices, ENGI has used the collar to hedge less than 50% of its gulf coast supplies at a net cost of $6,880. Last winter, ENGI hedged 90% of its gulf coast supplies. Due to a drop in prices below the established minimum rate last winter, ENGI was forced to pay approximately $1.4 million above spot prices during the 1998/1999 winter period.

In Order No. 22,953 (June 8, 1998), the Commission approved ENGI’s Guaranteed Price Protection Plan to enable customers who desire price certainty the ability to purchase gas at a set price for the winter period. In Order No. 23,272 (August 2, 1999), the Commission approved extending the plan with minor modifications. Approximately fifteen percent (15%) of the estimated weather normalized firm therm sales have been offered under the GPPP and ENGI has contracted at a fixed price for such therms. The price offered under the plan is $0.4724 per therm, or $0.0032 per therm less than the current proposed Firm Sales COG rate of $0.4756 per therm, and is available to customers until the end of October 1999. As of the date of the hearing, customers had contracted for approximately forty percent (40%) of the available supplies.

4. Firm Transportation Cost of Gas

ENGI proposed a FTCOG rate of $0.0013 per therm based on anticipated costs of $14,578 for the winter period adjusted by prior period over-collections of $3,151. The net amount of $11,427 to be collected from transportation customers was divided by projected firm transportation throughput of 8,938,077 therms to calculate the proposed rate.

ENGI’s proposed 1999/2000 Winter FTCOG rate of $0.0013 per therm represents a decrease of $0.0008 per therm from the 1998/1999 Winter FTCOG rate of $0.0021 per therm.

5. Environmental Remediation

By Order No. 21,710, Re EnergyNorth Natural Gas, Inc. 80 NHPUC 382 (1995), the Commission approved recovery of environmental remediation costs associated with the Gas Street Relief Holder over a seven year period and required ENGI to make any necessary adjustments to the surcharge during its winter COG proceeding each year. The annual increase needed to recover the remaining costs was determined by dividing the unrecovered costs as of September 30, 1999 by the remaining 2.75 years and dividing by 124,700,000, the weather normalized therm sales for the 12 months ended September 30, 1999.

By Order No. 22,943 (May 19, 1998), the Commission approved recovery of additional costs associated with the environmental remediation of former MGP sites. The Commission further established a cost review mechanism and step adjustment for recovery of future costs and required that those be filed during ENGI's winter COG proceedings. Additional costs of approximately $3.2 million resulted in a surcharge of $0.0072 per therm, an increase of $0.0027 per therm over the current surcharge of $0.0045 per therm.

At the hearing, ENGI requested that the Commission determine whether the settlement agreement entered into between ENGI and PSNH, for the allocation of environmental remediation costs related to the Laconia MGP site, was in the public good. ENGI stated that a Commission determination in this regard would avoid re-investigation into the agreement in subsequent years.

6. Conservation Charges

By Order No. 23,157 (March 9, 1999), the Commission acknowledged ENGI's decision not to file an avoided cost study, a necessary prerequisite for ENGI to continue to offer its demand side management (DSM) program. The Commission stated that it planned to resolve outstanding DSM issues relative to the natural gas industry after the reports are filed by the Energy Efficiency Working Group and Gas Unbundling Collaborative. Therefore, ENGI proposed Conservation Charges designed to collect: certain 1998/1999 program year measures estimated at $25,300 which ENGI expects to be committed to at September 30, 1999 but which will not yet be completed; lost net margins; and the estimated over or under recovery balances with applicable interest. ENGI proposed the following Conservation Charges for effect November 1, 1999: Domestic Heating at $.0006 per therm, a decrease of $0.0044 per therm; and Commercial General, Commercial Heating, Industrial General, Large Volume 70, and Large Volume 90 at ($0.0006) per therm, a decrease of $0.0006 per therm.

B. <u>Staff</u>

Staff stated that after a thorough review of the filing and subsequent discovery, Staff believes ENGI's gas purchasing and hedging policies are sound and reasonable and that ENGI is utilizing its available resources in a manner which minimizes gas costs and limits price fluctuations. Staff recommended approval of ENGI's proposed COG rate.

Staff also recommended, after having reviewed the environmental remediation costs and supporting documentation submitted by ENGI, that the Commission find that those costs were prudently incurred and should be recovered through the proposed surcharge. Further, Staff stated that the Conservation Charges proposed by ENGI were properly calculated to collect only for those costs related to phasing out the program and should be approved.

III. COMMISSION ANALYSIS

After reviewing the record, we conclude that ENGI's proposed 1999/2000 Winter COG is consistent with its previous performance relative to minimizing gas costs. Accordingly, we accept and approve ENGI's proposed 1999/2000 Firm Sales Winter COG, the proposed 1999/2000 Firm Transportation Winter COG charge, the proposed 280 Day Margin Recovery Surcharge, and Environmental Cost Recovery Surcharges, as being just and reasonable. Further, we find that the settlement agreement entered into by ENGI and PSNH is in the public good and results in a fair allocation of costs between the two utilities. Although we defer the issue of whether natural gas utilities should continue to offer DSM programs, we will approve the Conservation Charges proposed by ENGI in order to allow ENGI to recover the costs associated with phasing out its current programs.

We instruct ENGI to file appropriate tariffs in accordance with this Order.

Based upon the foregoing, it is hereby

ORDERED, that EnergyNorth Natural Gas, Inc.'s Second Revised Page 20 Superseding First Revised Page 20, providing for a Revised Firm Sales Winter COG rate of $0.4756 per therm for the period of November 1, 1999 through March 31, 2000, is APPROVED, effective for bills rendered on or after November 1, 1999; and it is

FURTHER ORDERED, that the over or under-collection shall accrue interest at the Prime Rate reported in the Wall

Street Journal. The rate is to be adjusted each quarter using the rate reported on the first date of the month preceding the first month of the quarter; and it is

FURTHER ORDERED, that ENGI may, without further Commission action, adjust the approved COG rate of $0.4756 per therm upward or downward monthly based on ENGI's calculation of the projected over or under-collection for the period, but the cumulative adjustments shall not vary more than ten percent (10%) from the approved unit cost of gas (or $0.0476 per therm) and can not change more than ten percent (10%) in any given month; and it is

FURTHER ORDERED, that ENGI will provide the Commission with its monthly calculation of the projected over or under-calculation, along with the resulting revised COG rate for the subsequent month, not less than five (5) business days prior to the first day of the subsequent month. ENGI shall include a revised tariff page 20 - Calculation of Cost of Gas Adjustment for firm sales and revised firm rate schedules if ENGI elects to adjust the COG rate; and it is

FURTHER ORDERED, that EnergyNorth Natural Gas, Inc.'s First Revised Page 21 Superseding Original Page 21, providing for a Fixed Firm Sales Cost of Gas Rate of $0.4724 per therm for the period of November 1, 1999 through March 31, 2000, is APPROVED, effective for bills rendered on or after November 1, 1999; and it is

FURTHER ORDERED, that EnergyNorth Natural Gas, Inc.'s First Revised Page 22 Superseding Original Revised Page 22, providing for a Firm Transportation Winter COG rate of $0.0013 per therm for the period of November 1, 1999 through March 31, 2000, is APPROVED; and it is

FURTHER ORDERED, that EnergyNorth Natural Gas, Inc.'s First Revised Page 62 Superseding Original Revised Page 72, providing for a winter period surcharge to recover the 280 Day Sales Margin of $0.0012 per therm for the period of November 1, 1999 through March 31, 2000, is APPROVED; and it is

FURTHER ORDERED, that EnergyNorth Natural Gas, Inc.'s First Revised Page 63 Superseding Original Revised Page 63, providing for a surcharge of $0.0042 per therm to recover the costs of the closure of the Gas Street Relief Holder, is APPROVED; and it is

FURTHER ORDERED, that EnergyNorth Natural Gas, Inc.'s First Revised Page 64, providing for a surcharge of $0.0072 per therm to recover the cost of environmental remediation and pursuit of third party claims related to former manufactured gas plant sites in New Hampshire, is APPROVED; and it is

FURTHER ORDERED, that EnergyNorth Natural Gas, Inc.'s First Revised Page 61, providing for Conservation Charges of $0.0006 per therm for Domestic Heating and ($0.0006) per therm for Commercial General, Commercial Heating, Industrial General, Large Volume 70, and Large Volume 90, to recover costs related to ENGI's DSM Program, is APPROVED; and it is

FURTHER ORDERED, that ENGI file properly annotated tariff pages in compliance with this Order no later than 15 days from the issuance date of this Order, as required by N.H. Admin. Rules, PUC 1603.

By order of the Public Utilities Commission of New Hampshire this twenty-ninth day of October, 1999.

Douglas L. Patch Chairman	Susan S. Geiger Commissioner	Nancy Brockway Commissioner

Attested by:

Thomas B. Getz
Executive Director and Secretary